Meeting Ontario's Priorities

Your Guide to the 1992 Ontario Budget

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Treasurer of Ontario

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Your Guide

to the

1992 Ontario Budget

Floyd Laughren
Treasurer of Ontario

ONTARIO MINISTRY OF
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ISBN 0-7729-9815-9

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Meeting Ontario's Priorities

Dear Fellow Ontarians:

For Ontario, the Budget is more than just a statement of money coming in and money going out. It's a chance to work towards accomplishing important goals. They are goals that we all share – fairness, economic prosperity and sound management of public money.

The present recession has lasted for two years. Many people, businesses and communities have been hurt by it. Many more are worried about their future. In this Budget, we are trying to address those concerns.

In January we opened our books to show the public the challenges we face in developing the 1992 Budget.

We asked for your opinions. More than 16,000 people called or wrote to ask for copies of pre-Budget materials. I received more than 4,300 letters and submissions. My Cabinet colleagues and I met with 225 different groups. Many of my caucus colleagues held public meetings on the Budget in their ridings.

You have told us you want action on three priorities. The first is jobs. The second is to preserve public services like health care and social assistance. The third is to keep the deficit in check.

We are responding in this Budget.

- We are taking immediate steps to create jobs.
- We are preserving important public services.
- We are controlling the deficit.

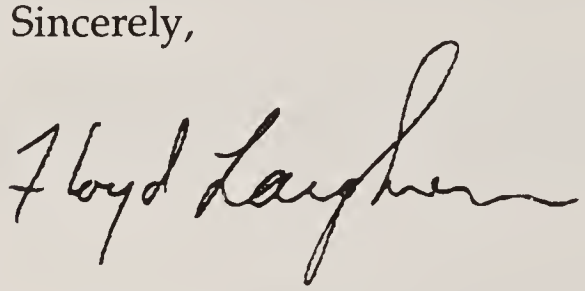
We are focusing on these priorities because, in the teeth of a tough recession, we can build on our strengths – our public services, our workforce, our business community and our public assets.

The people of Ontario don't expect miracles. But they do expect leadership. They want action on their priorities. Above all, they want to see Ontario working.

We have tried to strike a balance in meeting our priorities of creating jobs, maintaining services and controlling the deficit. To achieve this balanced approach, we have had to raise taxes. We have done so only after we have put a tremendous effort into making government more efficient.

We don't think public involvement in the budget process should end with the release of the Budget. We hope people will continue to seek information about how public money is raised and how it is spent.

Sincerely,



Floyd Laughren

Treasurer of Ontario

The Budget at a Glance

Meeting Our Priorities – Jobs, Services and the Deficit

Priority: Jobs

Supporting job creation is the first priority.

This Budget:

- supports 90,000 jobs this year
- puts in place training programs to support 100,000 jobs and train an additional 80,000 workers over the next three years
- gives tax incentives to business to create jobs and stimulate investment
- provides financial assistance to communities to help them create jobs
- creates 20,000 new child care spaces to allow parents to return to the workplace

Priority: Preserving Public Services

Despite a steep decline in revenues, the Government has maintained its commitment to public services such as health care and education. Reform and restructuring these services, rather than arbitrarily cutting them, has been the watchword.

- Seventy cents of every dollar we spend goes towards important public services like health, education and social services.
- While maintaining universal access to our highly-valued health care system, we will keep the increase in the health care budget to two per cent this year, after a decade of cost increases averaging 11 per cent per year.
- Lower income seniors will receive enriched benefits this year under a new seniors' tax credit program.

- There will be an additional $100 million in funding for reforms in long-term care services for the elderly and people with disabilities.
- A new training program will help social assistance recipients find jobs.

Priority: Keeping the Deficit in Check

- This year's deficit will be $1 billion lower than last year.
- Growth in government spending will be the lowest in 39 years.
- Salary freezes for Cabinet ministers, MPPs and 3,900 senior government managers continue.
- Spending on such items as travel, consultants, communications and other operating expenses for all government ministries are cut by 10 per cent.
- Ontario government jobs will decrease by 2,500 over two years through attrition and early retirement incentives.

Sharing the Burden Fairly

- We are increasing personal income taxes, which is the fairest way to raise revenues.
- As a result of this Budget, the combined federal and Ontario personal income tax in 1993 for people earning less than $53,000 will be no higher than it is now.
- Self-employed people earning more than $40,000 will now pay the Employer Health Tax. This will provide a fairer sharing of the costs of health care.
- There will be a temporary income tax surtax on banks. A technical paper with recommendations regarding a corporate minimum tax on profitable corporations will be issued in the fall.
- There are no increases in the retail sales tax rate or gasoline and tobacco taxes.

I Jobs

Creating jobs is our first priority. This year, we will support some 90,000 jobs and lay the groundwork for future jobs. The new JOBS ONTARIO program is the cornerstone of this plan.

Jobs Supported by 1992 Budget Initiatives[1] **Table 1**

	Fiscal 1992-93	
	$ Millions	**Jobs**
JOBS ONTARIO Training Fund	176	10,800
JOBS ONTARIO Capital Fund	500	9,800
JOBS ONTARIO Homes Fund	–[2]	2,400
Base Capital Spending	3,400	67,000
Total	4,076	90,000

1. Person-years of employment.
2. To cost approximately $200 million in annual operating subsidies once all units are completed.

With this Budget, we are announcing:

1. **The JOBS ONTARIO Training Fund, an innovative, three-year, $1.1 billion program.**

   - The fund will help create up to **100,000 jobs** over three years for the long-term unemployed. It will also provide training for as many as 80,000 other Ontarians who are employed but need to upgrade their skills.
   - It will fund up to 20,000 additional subsidized child care spaces to help program participants with young children re-enter the workforce.
   - It will provide pre-employment training in basic skills for new workers.
   - The Budget is also providing over $930 million for worker retraining and adjustment this year. This is 24 per cent more than last year.

2. **A five-year, $2.3 billion strategic capital program, the JOBS ONTARIO Capital Fund.**

   - $500 million will be allocated this year, providing **9,800 jobs** in 1992-93.
   - The fund is designed to support Ontario's transition to a more productive, knowledge-based economy.

3. **The JOBS ONTARIO Homes Fund**

   - A commitment to create 20,000 new, non-profit housing units over three years. This is expected to generate $2.1 billion in work in the construction industry. This year about **2,400 construction-related jobs** will be created and thousands more created over the life of the program.

4. **Capital funding of $3.4 billion for schools, roads, homes for the aged and other public facilities**

   - This funding will support **67,000 jobs** this year while improving Ontario's infrastructure.

5. **Funding for pay equity**

   - To ensure that women workers get paid fairly for the work they do and are encouraged to enter the workforce, this year we will spend $285 million on pay equity. We will be devoting $1 billion to pay equity annually once it is fully implemented.

6. **Jobs through encouraging business**

   - Private investment creates jobs and produces new technology, new factories, and new ways of making products that help business compete internationally.
   - To encourage investment, the Budget lowers tax rates and provides other support for manufacturing and resource firms. For example, there will be a one percentage point reduction in the corporate income tax rate paid by manufacturing and resource industries, from 14.5 to 13.5 per cent.

- To encourage investment in labour-sponsored investment funds, there will be an increase in the maximum annual tax credit, from $700 to $1,000.

- To assist small business, the small business corporate income tax rate will be reduced by one-half point, to 9.5 per cent. And to cut paperwork, small business will only have to file Employer Health Tax returns once a year.

- To encourage businesses to work together in areas such as marketing and research and development, a three-year, $150 million **Sectoral Partnership Fund** will be established to give financial support to cooperative projects that lead to more, higher value-added jobs.

7. Jobs for communities

Border communities and rural and Northern communities need jobs. We are addressing that in this Budget through:

Community diversification

- We are moving 5,100 government jobs to many communities across Ontario, to diversify the economies of such centres as St. Catharines, Windsor, Chatham, Brantford, Niagara Falls, Guelph, Orillia, Peterborough, Kingston, Elliot Lake and Haileybury.

Financial Support for Communities

- We are spending $30 million through the Northern Ontario Heritage Fund to help diversify the Northern economy. We are spending $11 million to make the most of the geological information Ontario has for mineral exploration. We will be helping tobacco farmers adjust in the face of lower demand for tobacco products.

- Through the new **Commodity Loan Guarantee Program,** we are providing farmers with low-interest working capital.

Border Communities

- Many communities, especially those in border areas, have expressed interest in expanding gambling as a way of promoting tourism. The Government will establish casinos, working with interested communities and in consultation with charitable and other organizations.

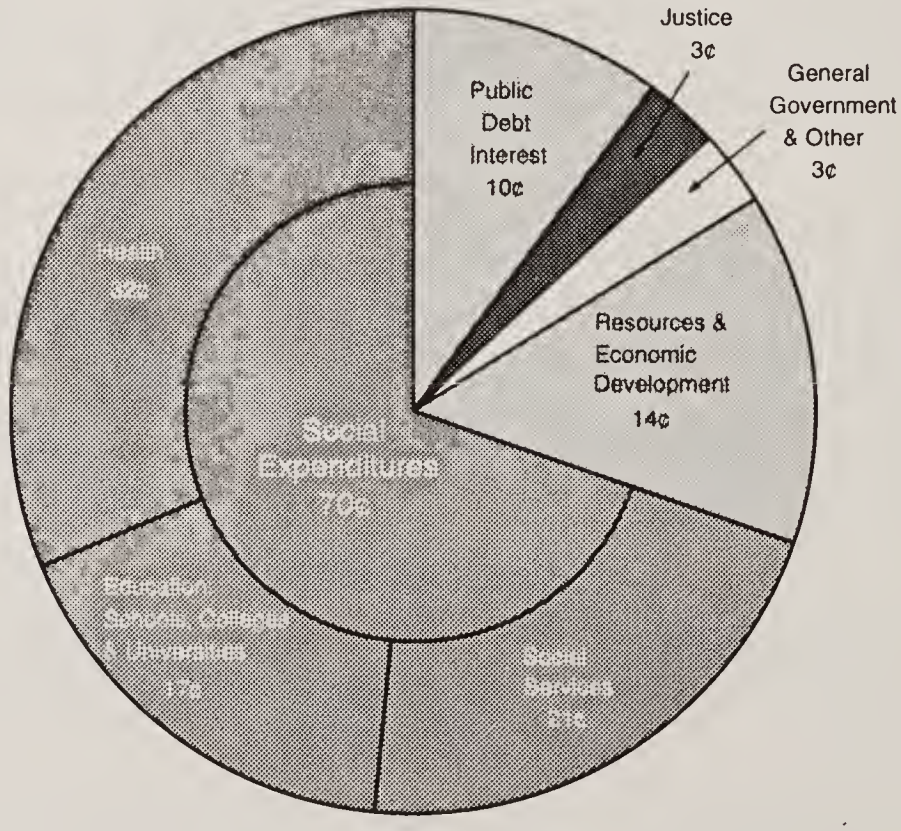
II A Commitment to Public Services

A recent United Nations study ranks Canada as the best place in the world to live. The people of Ontario helped Canada earn that reputation.

Maintaining our standard of living means maintaining important services like health care, education and social assistance that help make this the best country in which to live, work and do business.

The chart below shows how much of this Budget is spent on health care, education and other social services.

The Budget Dollar: Total Expenditure, 1992-93

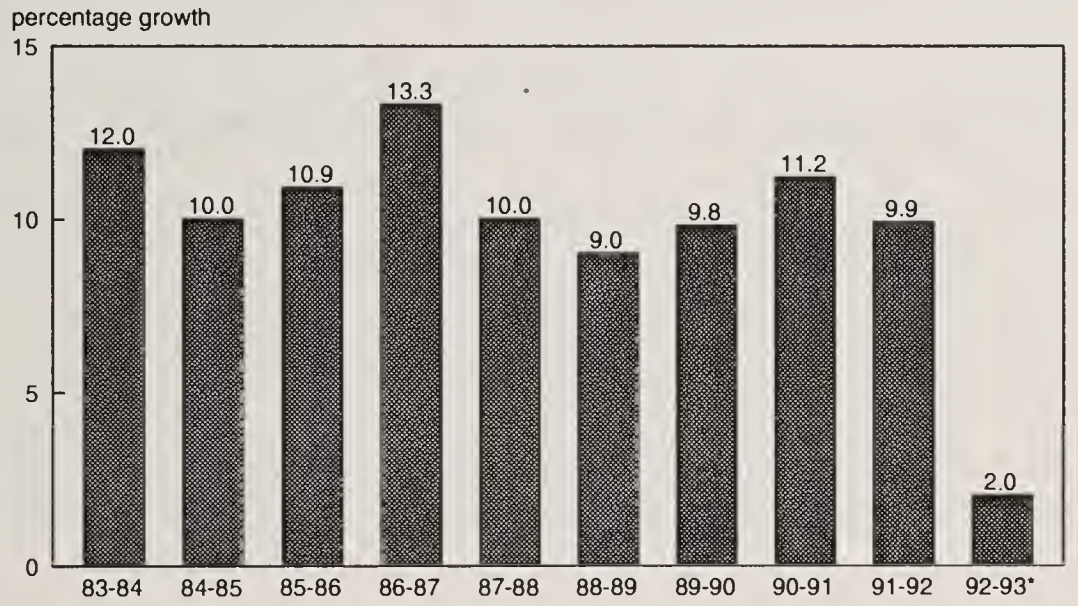


Cutting Costs, Not Services

- To fulfil our commitment to maintaining public services, we have begun to re-organize and streamline programs. This will help to ensure that public services are effective, affordable and sustainable.

- For example, we're introducing health care reforms so that costs aren't growing as fast. For the past decade, the cost of health care has risen about 11 per cent each year. In 1992, the cost will increase only 2.0 per cent.

Growth in Ministry of Health Spending
Ten Year Review



* projected

- We're offering social assistance recipients more opportunities for training and a job. We are instituting new measures to help people on social assistance obtain other sources of income to which they may be entitled, such as the Canada Pension Plan and child support payments. These measures and others being taken will make the system more efficient.

- Last year we announced a program to reform long-term care for the elderly and people with disabilities. We are providing an additional $100 million this year to move ahead with these essential reforms.

- Under reforms we are making to property tax and sales tax support for seniors, more than 350,000 low-income senior households will get higher benefits. For senior households with income under $23,000, average benefits will increase by $135 per household.

- Changes will save about $100 million per year, mainly by ending benefits to most senior households with incomes above $50,000.

III Keeping the Deficit in Check

This Budget includes a plan to keep the deficit in check, while supporting job creation measures and preserving important public services like health care, social services and education.

Even with Ontario's revenues dramatically reduced by the recession – and by shortfalls in federal funding (see box on page 13) – this year's deficit will be $1 billion lower than last year's.

This was achieved through an innovative package of more efficient government spending which reduced the growth in spending by $3 billion this year. This will help pay for new initiatives and control the deficit.

Government Spending Growth Lowest in 39 Years

- The overall growth in Ontario's spending this year will be 4.9 per cent, the lowest in 39 years.
- Ministry operating budgets for such items as consultants, travel and communications, will be reduced by ten per cent.
- The size of the Ontario public service will be reduced by 2,500 over two years through attrition and early retirement incentives.
- For every dollar in increased taxes, the government found four dollars in savings.

Deficit is Declining

- The operating deficit will drop substantially over the next few years from $6 billion this year. We are on target to meet our commitment to a balanced operating budget by 1997.

Medium-Term Fiscal Outlook

The table below compares Ontario's revenues, spending and deficit for last year, this year and the next three years.

Medium-Term Fiscal Outlook **Table 2**
($ Billions)

	Interim 1991-92	Budget 1992-93	Outlook 1993-94	Outlook 1994-95	Outlook 1995-96
Revenue	41.3	44.9	48.0	50.9	54.9
Operating Expenditure	48.4	50.9	53.0	55.2	56.8
Operating Deficit	(7.1)	(6.0)	(5.0)	(4.3)	(1.9)
Capital Expenditure	3.9	3.9	3.1[1]	2.7[1]	2.2[1]
Budgetary Requirements[2]	(10.9)	(9.9)	(8.1)	(7.0)	(4.1)

1 Capital Expenditures adjusted to reflect new capital financing arrangements by $0.8 billion in 1993-94; $1.2 billion in 1994-95; and $1.7 billion in 1995-96.

2 Budgetary requirement calculation changes after 1992-93, reflecting new capital financing arrangements.

Note: Numbers may not add due to rounding

Shortfalls in Federal Funding

One of the barriers to a much lower deficit in Ontario has been the federal government policy on *transfer payments*.

Ottawa supports provincially-administered social programs such as health care, higher education and social assistance by transferring money to the provinces.

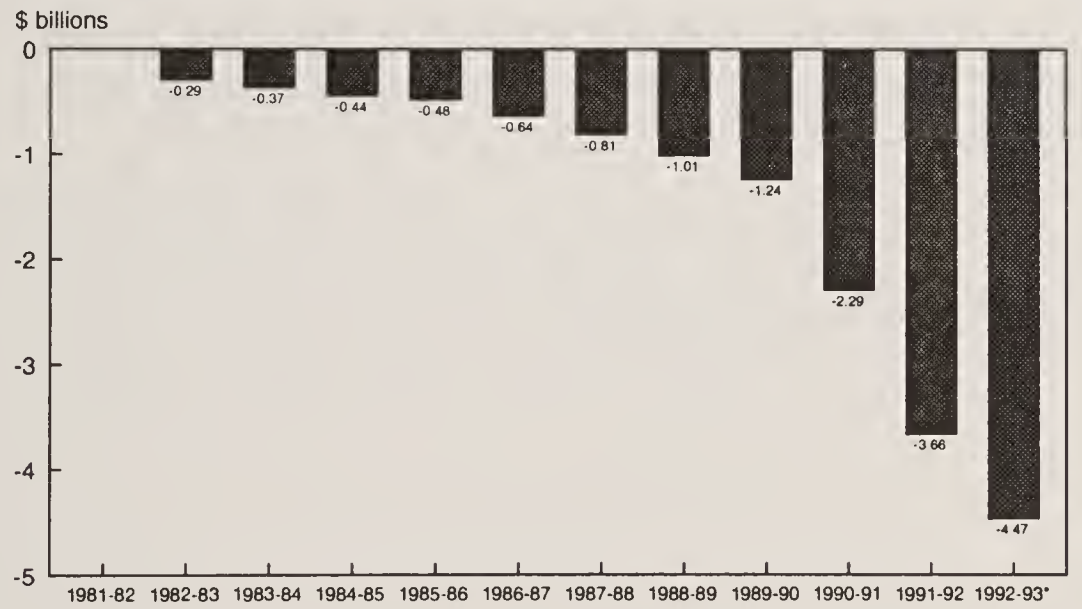
In the early 1980s, Ottawa began to change the terms of its transfer arrangements. Two years ago, new and extremely tight limits were placed on these transfers, just as the recession began.

- Severe growth limits were placed on Canada Assistance Plan funding, which provides support for social assistance costs.
- Per capita entitlements under the Established Programs Financing arrangement, which provides support for health care and higher education, were frozen.

Now the demands for services, especially social assistance, in Ontario are increasing rapidly because of the recession. Yet Ottawa refuses to budge from this policy.

- If the federal government were adhering to the original terms of the transfers, Ontario would have $4.5 billion more in revenues this year. That's a loss of more than $1,700 for each Ontario family of four.

Ontario Revenue Losses Due to Limits on Federal Payments for Health, Post-secondary Education and Social Assistance



* Projected
Note: Cumulative Losses 82-83 to 92-93: $15.7 billion

IV Sharing the Tax Burden Fairly

We have taken important steps in this Budget to manage our health and social services more efficiently. But the money we have saved cannot completely replace the revenue lost due to the recession and limits on federal transfers.

It is vital that the costs of public services be shared as fairly as possible among all of the people of Ontario. We are raising taxes in a way that shares the tax burden fairly.

The following are highlights of the tax changes contained in the 1992 Budget.

Personal Income Tax

- We are increasing the Ontario personal income tax because it is Ontario's fairest revenue source; more than any other tax, it is based on ability to pay.
- The Ontario personal income tax rate for 1992 will increase to 54.5 per cent of Basic Federal Tax, up from 53 per cent. It will increase to 55 per cent of Basic Federal Tax in 1993 and subsequent years.
- To ensure that lower income people do not pay any more tax, the Ontario Tax Reduction program is being enriched.
- As of July 1992, people earning more than $53,000 will pay a surtax of 14 per cent. In 1993, the surtax rate for people earning more than $69,000 will rise to 20 per cent.
- The combined federal-Ontario personal income tax in 1993 for people earning less than $53,000 will be no higher than it is now as a result of this Budget.

Impact of Personal Income Tax Changes for 1993 ($) **Table 3**

Employment Income	Federal Surtax Reduction	Ontario PIT Rate Increase*	Ontario Surtax Increase	Net Change
Single Person				
20,000	(45)	45	0	0
25,000	(60)	60	0	0
30,000	(75)	75	0	0
40,000	(125)	125	0	0
50,000	(180)	180	0	0
60,000	(230)	230	120	120
75,000	(320)	320	500	500
100,000	(465)	530	915	980
200,000	(1,045)	1,190	1,870	2,015
One-Earner Married Couple with Two Children				
20,000	(25)	0	0	(25)
25,000	(40)	(55)	0	(95)
30,000	(55)	55	0	0
40,000	(110)	110	0	0
50,000	(160)	160	0	0
60,000	(215)	215	50	50
75,000	(300)	300	400	400
100,000	(445)	505	885	945
200,000	(1,025)	1,170	1,840	1,985

* Net of Ontario Tax Reduction enrichment.

Note: Table shows the impact in 1993 from measures in the 1992 federal and Ontario budgets.

Corporate Minimum Tax

- The Government will release a technical paper this fall that will make recommendations regarding an appropriate corporate minimum tax for Ontario.

Banks

- Banks will pay a temporary surtax of ten per cent on their income tax until October 31, 1993. We are increasing the capital tax rate on banks from 1.0 per cent to 1.12 per cent.

Employer Health Tax

- As of January 1, 1993, those earning over $40,000 a year in net self-employment income will pay the Employer Health Tax.

Levies on Alcohol

- To encourage the use of reusable/refillable containers, the environmental levy will now apply to all non-refillable beverage alcohol containers. As of May 25, 1992, the levy will also be increased to ten cents per container.
- Also as of May 25, 1992, the volume levy on beer will go up by five cents.
- Because of these measures, a case of 24 bottled beer will go up by 50 cents. A case of 24 cans will go up by $3.10.

Sale of Used Motor Vehicles

- To provide consumers with better information, the Government is introducing the **Vehicle Transfer Package**. As of April 1, 1993, a car owner must buy the package for $20 before conducting a private sale and make it available to prospective purchasers.
- As well, the Government does not always receive the appropriate retail sales tax due on transfers of used vehicles. As of October 1, 1992, the retail sales tax treatment of these transactions will be changed to ensure that the appropriate tax is paid.

Revenue Changes: 1992 Budget Impact ($ Millions)		Table 4
	1992-93	**Full Year**
Personal Income Tax		
Tax Rate Adjustment	520	580
Surtax	150	360
Ontario Tax Reduction	(10)	(10)
Retail Sales Tax		
Used Vehicles	35	95
LCBO Profits/LLBO Fees, Licences and Permits[1]		
Volume Levy	40	45
Environmental Levy	45	55
Employer Health Tax		
Self-Employed Individuals	0	45
Corporations Tax		
Capital Tax Increase On Banks[2]	7	15
Temporary Income Tax Surtax On Banks	15	20
Tax Adjustment for Bank Mortgage Subsidiaries[2]	(7)	(15)
Taxation of Life Insurance Companies	15	20
Manufacturing and Resource Industry Rate Cut	0	(40)
Small Business Rate Cut	(20)	(25)
Paralleling Federal Changes		
CCA Increase For Manufacturing Equipment	(10)	(30)
CCA Increase For Transportation Equipment	(6)	(6)
Broadening of R&D Expenditures	0	(5)
Small Business Financing Program	(3)	(3)
Labour-Sponsored Venture Capital Corporations	0	(10)
Net Impact of all Revenue Changes	**771**	**1,091**

1 Inclusive of Retail Sales Tax

2 Net of Corporate Income Tax effects

V Participating in the Budget Process

In drawing up this Budget, we kept the promise we made last year to open up the process. People have been able to debate some of the questions relating to the Budget. We hope to build on this in future years.

This Guide gives the broad decisions we made and the reasons why we did so. The full 1992 Budget contains much more detailed information. Ordering information is below.

If you want to send a written response to the Budget, please address it to:

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